The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2006: budgetary deficit of $1.4 billion

There was a budgetary deficit of $1.4 billion in September 2006, compared to a $0.2-billion surplus in September 2005. Revenues increased by $0.3 billion, or 2.0 per cent, driven by strong growth in income tax revenues, partially offset by a drop in goods and services tax (GST) revenues, reflecting the cut to the GST rate on July 1, 2006. Program expenses increased by $1.8 billion, or 13.2 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges were up $72 million.

April to September 2006: budgetary surplus of $5.3 billion

For the first six months of the 2006–07 fiscal year, the budgetary surplus is estimated at $5.3 billion, up $0.4 billion from the $4.9-billion surplus posted in the same period of 2005–06. Revenues were up $5.6 billion, or 5.3 per cent, driven by strong growth in income tax revenues, slightly offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up $5.0 billion, or 6.1 per cent, due to both higher transfers and other program expenses. Public debt charges were up $0.2 billion.

In keeping with the 2006 budget commitment to provide quarterly updates of the fiscal forecast for the current year, an updated forecast will be published in *The Economic and Fiscal Update*.

September 2006

There was a budgetary deficit of $1.4 billion in September 2006, compared to a $0.2-billion surplus in September 2005.

Budgetary revenues increased by $0.3 billion, or 2.0 per cent, to $17.0 billion.

- Personal income tax revenues were up $0.7 billion, or 8.9 per cent, reflecting higher employment and wages and salaries.
- Corporate income tax revenues increased $0.3 billion, or 14.6 per cent. Corporate income tax revenues can be volatile on a monthly basis, as corporate year-ends are distributed throughout the year, with a concentration in September through December. As such, large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place several years prior, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—declined by $0.1 billion, or 26.5 per cent, reflecting the high level of revenues reported at this time last year.

- Excise taxes and duties were down $0.3 billion due to an 11.4-per-cent drop in GST revenues, reflecting the impact of the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues declined by 8.2 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, were down $0.1 billion, or 8.9 per cent, following a 16.7-per-cent gain in August.

Program expenses in September 2006 were $15.5 billion, up $1.8 billion, or 13.2 per cent, from September 2005, reflecting increases in transfer payments and increased operating expenses of departments and agencies, excluding National Defence.

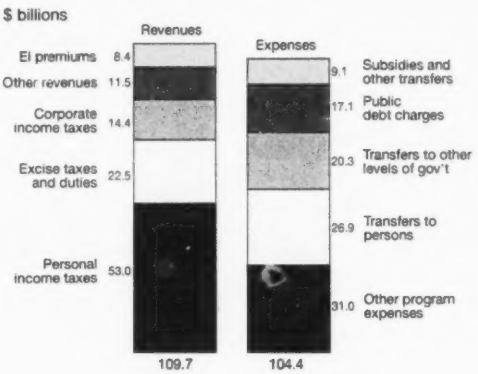
Transfer payments were up $0.8 billion, or 9.7 per cent.

- Transfers to persons, consisting of elderly, EI and children's benefits, rose $0.3 billion, or 8.3 per cent. Elderly benefits increased by 5.6 per cent. EI benefits decreased by 0.8 per cent, reflecting declines in both regular and maternity benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up $219 million, largely reflecting $199 million in transfers under the UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up $0.1 billion, or 4.1 per cent, reflecting increased funding under the 2004 agreements on health care and equalization/Territorial Formula Financing.
- Subsidies and other transfers increased by $0.4 billion, or 28.1 per cent, reflecting in part increased agricultural assistance announced in Budget 2006.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $1.0 billion, or 19.1 per cent. Expenses increased across a number of departments, bringing year-to-date growth more in line with projected spending in the 2006 budget. In addition, spending in September was affected by a one-time adjustment to reflect an under-accrual of pension costs in prior months.

Public debt charges increased by $72 million.

Revenues and expenses
(April to September 2006)



April to September 2006

In the first six months of the 2006–07 fiscal year, there was a budgetary surplus of $5.3 billion, up $0.4 billion from the $4.9-billion surplus reported in the same period of 2005–06.

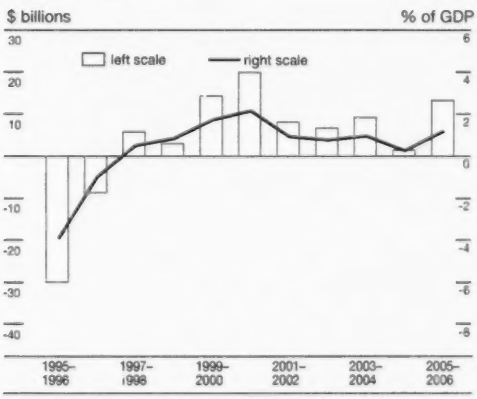
Budgetary revenues were up $5.6 billion, or 5.3 per cent, to $109.7 billion.

- Personal income tax revenues were up $5.0 billion, or 10.5 per cent, reflecting solid growth in employment and wages and salaries, combined with the progressivity of the personal income tax system.
- Corporate income tax revenues rose $1.5 billion, or 11.7 per cent, reflecting a higher corporate instalment payment base and lower refunds to date, both of which in turn reflect profit growth in 2005 and higher corporate profitability this year.
- Other income tax revenues rose $0.2 billion, or 9.6 per cent.
- Excise taxes and duties were down $0.8 billion, or 3.6 per cent, mainly due to a $0.9-billion drop in GST revenues, reflecting the impact of the GST rate reduction on July 1, 2006. Sales and excise tax revenues were also lower, falling $48 million, or 1.0 per cent. Customs import duties were up $0.1 billion, or 6.4 per cent, while revenues from the Air Travellers Security Charge were $3 million higher.
- EI premium revenues declined by 7.2 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues were up $0.3 billion, or 3.4 per cent.

Program expenses in the April to September 2006 period were $87.3 billion, up $5.0 billion, or 6.1 per cent, over the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by $0.2 billion.

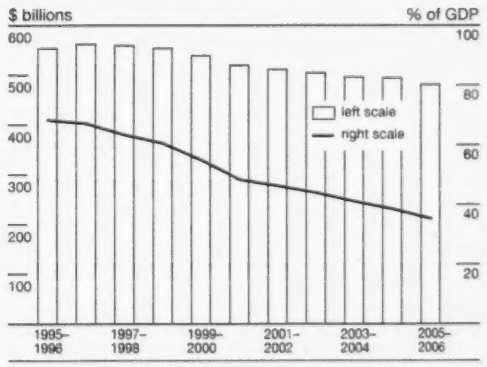
Transfer payments, which account for about two-thirds of total program expenses, increased by $3.0 billion, or 5.7 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Transfers to persons advanced by 4.3 per cent. Elderly benefits were up 4.9 per cent while EI benefits were down 4.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity and parental benefits are also down year-to-date due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 15.8 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.
- Transfers to other levels of government were up $1.6 billion, or 8.4 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $0.4 billion, or 4.1 per cent.

Other program expenses increased by $1.9 billion, or 6.7 per cent, reflecting an increase in the operating costs of departments and agencies as well as a one-time increase in the Government's estimated liabilities. Crown corporation expenses declined by $0.1 billion, or 1.7 per cent.

Public debt charges were up 1.0 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $3.0 billion for April to September 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $2.3 billion in the April to September period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from the $7.8-billion requirement recorded in the same period of 2005–06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005–06.

With a budgetary surplus of $5.3 billion and a net requirement of $2.3 billion from non-budgetary transactions, there was a financial source of $3.0 billion in the first six months of 2006–07 compared to a financial requirement of $2.9 billion in the same period of 2005–06.

Net financing activities down $17.5 billion

The Government used this financial source of $3.0 billion and a reduction in its cash balances of $14.5 billion to reduce its market debt by $17.5 billion by the end of September 2006, largely through a reduction of treasury bills and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at $3.4 billion.

Table 1
Summary statement of transactions

	September		April to September	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	16,652	16,985	104,174	109,732
Expenses				
Program expenses	-13,674	-15,481	-82,323	-87,309
Public debt charges	-2,814	-2,886	-16,917	-17,078
Budgetary balance (deficit/surplus)	164	-1,382	4,934	5,345
Non-budgetary transactions	2,413	276	-7,793	-2,312
Financial source/requirement	2,577	-1,106	-2,859	3,033
Net change in financing activities	-7,163	292	-11,560	-17,527
Net change in cash balances	-4,586	-814	-14,419	-14,494
Cash balance at end of period			2,702	3,437

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	September			April to September		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,726	8,413	8.9	48,017	53,047	10.5
Corporate income tax	1,921	2,202	14.6	12,870	14,379	11.7
Other income tax	355	261	-26.5	1,930	2,116	9.6
Total income tax	10,002	10,876	8.7	62,817	69,542	10.7
Excise taxes and duties						
Goods and services tax	2,834	2,510	-11.4	16,550	15,654	-5.4
Customs import duties	305	307	0.7	1,683	1,791	6.4
Sales and excise taxes	864	873	1.0	4,906	4,858	-1.0
Air Travellers Security Charge	31	28	-9.7	180	183	1.7
Total excise taxes and duties	4,034	3,718	-7.8	23,319	22,486	-3.6
Total tax revenues	14,036	14,594	4.0	86,136	92,028	6.8
Employment insurance premiums	1,140	1,046	-8.2	9,003	8,358	-7.2
Other revenues	1,476	1,345	-8.9	9,035	9,346	3.4
Total budgetary revenues	16,652	16,985	2.0	104,174	109,732	5.3

Note: Totals may not add due to rounding.

Table 3
Budgetary expenses

	September			April to September		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,415	2,551	5.6	14,393	15,096	4.9
Employment insurance benefits	996	988	-0.8	6,804	6,473	-4.9
Children's benefits	757	976	28.9	4,603	5,332	15.8
Total	4,168	4,515	8.3	25,800	26,901	4.3
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	9,500	10,070	6.0
Canada Social Transfer	686	708	3.2	4,113	4,250	3.3
Total	2,269	2,386	5.2	13,613	14,320	5.2
Fiscal transfers	1,010	1,111	10.0	6,402	6,634	3.6
Canada's cities and communities	69	0	n/a	181	306	69.1
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-239	-261	9.2	-1,436	-1,566	9.1
Total	3,109	3,236	4.1	18,760	20,344	8.4
Subsidies and other transfers						
Agriculture and Agri-Food	142	383	169.7	605	782	29.3
Foreign Affairs and International Trade	248	138	-44.4	1,245	983	-21.0
Health	230	207	-10.0	912	925	1.4
Human Resources and Social Development	169	146	-13.6	779	828	6.3
Indian Affairs and Northern Development	326	378	16.0	2,310	2,381	3.1
Industry	132	124	-6.1	918	871	-5.1
Other	17	243	n/a	1,936	2,295	18.5
Total	1,264	1,619	28.1	8,705	9,065	4.1
Total transfer payments	8,541	9,370	9.7	53,265	56,310	5.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	73	100	37.0	668	695	4.0
Canada Mortgage and Housing Corporation	184	176	-4.3	1,030	974	-5.4
Other	239	281	17.6	1,740	1,710	-1.7
Total	496	557	12.3	3,438	3,379	-1.7
Defence	1,405	1,283	-8.7	7,054	7,458	5.7
All other departments and agencies	3,232	4,271	32.1	18,566	20,162	8.6
Total other program expenses	5,133	6,111	19.1	29,058	30,999	6.7
Total program expenses	13,674	15,481	13.2	82,323	87,309	6.1
Public debt charges	2,814	2,886	2.6	16,917	17,078	1.0
Total budgetary expenses	16,488	18,367	11.4	99,240	104,387	5.2

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	September		April to September	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	164	-1,382	4,934	5,345
Non-budgetary transactions				
Capital investing activities	-613	-411	-730	-824
Other investing activities	-881	-887	-1,821	-471
Pension and other accounts	807	1,085	-881	2,555
Other activities				
Accounts payable, receivables, accruals and allowances	2,474	456	-7,792	-6,369
Foreign exchange activities	344	-322	1,884	1,257
Amortization of tangible capital assets	282	355	1,547	1,540
Total other activities	3,100	489	-4,361	-3,572
Total non-budgetary transactions	2,413	276	-7,793	-2,312
Net financial source/requirement	2,577	-1,106	-2,859	3,033

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	September		April to September	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	2,577	-1,106	-2,859	3,033
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-4,461	-2,832	-3,078	-1,212
Treasury bills	-2,600	3,200	-4,400	-10,600
Canada Savings Bonds	-37	-46	-429	-425
Other	-26	-114	-168	-1,129
Total	-7,124	208	-8,075	-13,366
Foreign currency borrowings	8	-75	-3,583	-3,929
Total	-7,116	133	-11,658	-17,295
Cross-currency swap revaluation	-73	118	-78	-3
Unamortized discounts on debt issues	34	38	100	-185
Obligations related to capital leases	-8	3	76	-44
Net change in financing activities	-7,163	292	-11,560	-17,527
Change in cash balance	-4,586	-814	-14,419	-14,494

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2006	September 30, 2006	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	89,925	-11,507
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	259,922	-1,212
Treasury bills	131,597	120,997	-10,600
Canada Savings Bonds	17,342	16,917	-425
Other	3,102	1,973	-1,129
Subtotal	413,175	399,809	-13,366
Payable in foreign currencies	14,085	10,156	-3,929
Cross-currency swap revaluation account	-2,258	-2,261	-3
Unamortized discounts and premiums on market debt	-6,780	-6,965	-185
Obligations related to capital leases	2,927	2,883	-44
Total unmatured debt	421,149	403,622	-17,527
Pension and other accounts			
Public sector pensions	131,062	132,899	1,837
Other employee and veteran future benefits	43,369	44,179	810
Other pension and other accounts	5,493	5,401	-92
Total pension and other accounts	179,924	182,479	2,555
Total interest-bearing debt	601,073	586,101	-14,972
Total liabilities	702,505	676,026	-26,479
Financial assets			
Cash and accounts receivable	82,843	63,211	-19,632
Foreign exchange accounts	40,827	39,570	-1,257
Loans, investments and advances (net of allowances)	41,889	42,360	471
Total financial assets	165,559	145,141	-20,418
Net debt	536,946	530,885	-6,061
Non-financial assets	55,447	54,731	-716
Federal debt (accumulated deficit)	481,499	476,154	-5,345

For additional copies or subscription inquiries, please contact the Distribution Centre at 613-995-2855.
For other inquiries about this publication, contact Chris Forbes at 613-995-6391.
Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.
Ce document est également offert en français.
November 2006